

Business momentum intact, Retain Buy

Quarterly volatility apart, business momentum intact, Buy

TCS 2Q revenue and EBIT (INR terms) missed our estimates by 1% and 2-3%, but met our PAT estimates on lower than expected forex hedge hit. This miss was due to volatility in the lumpy India business and mix led lower realization. More importantly, international business reported a stellar 7.3% qoq volume growth. Employee hiring induces confidence and management commentary stood out for its unequivocal bullishness on current demand outlook. We raise FY12-14 EPS 3 to 8% to bake in potential beat in international business & INR, raise PO to Rs1,250 (vs Rs1,190), retaining Buy. TCS remains one of our top picks on all round strength. After 10%+ YTP stock outperformance, implied upside potential is 12-15%.

2Q misses ests marginally on India business lumpiness/mix

TCS reported all-round rev growth of 4.7% qoq in USD terms, in line with peer Infy and lower than our 6% estimate due to a decline in India related billing. India business has a lower annuity component and tends to be lumpy quarter to quarter. Constant currency pricing declined nearly 1% qoq due to quarterly fluctuations in revenue mix including lower proportion of fixed price contracts. Company stated pricing itself was broadly stable. Margins expanded nearly 100bps on Rupee, offset by dip in realization & cost of promotions. Other income declined on forex hedging loss & lower treasury income post dividend payout.

Management confidence stands out on rev & margins

Company hired 20,349 employees, its highest ever and maintained its target of 60,000 hires. Further it has already made 35,000 campus offers vs 37,500 made before the start of FY12. The CEO stated that demand continues to be robust driven by analytics, need to innovate products/business models, globalize, optimize by also leveraging trends like cloud/social media/analytics. They closed 10 large deals and have at least another 10 in the pipeline. TCS also remains confident on managing margins by pushing productivity.

Estimates (Mar)

(Rs)	2010A	2011A	2012E	2013E	2014E
Net Income (Adjusted - mn)	68,728	87,164	105,862	123,548	146,179
EPS	35.12	44.53	54.09	63.12	74.69
EPS Change (YoY)	32.9%	26.8%	21.5%	16.7%	18.3%
Dividend / Share	20.00	14.00	16.23	18.94	22.41
Free Cash Flow / Share	33.05	26.64	36.15	44.53	51.32

Valuation (Mar)

	2010A	2011A	2012E	2013E	2014E
P/E	31.90x	25.15x	20.71x	17.75x	15.00x
Dividend Yield	1.79%	1.25%	1.45%	1.69%	2.00%
EV / EBITDA*	24.30x	18.83x	14.60x	12.72x	10.92x
Free Cash Flow Yield*	2.95%	2.38%	3.23%	3.98%	4.58%

* For full definitions of *iQmethod*SM measures, see page 12.

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Stock Data

Price	Rs1,120
Price Objective	Rs1,260
Date Established	18-Oct-2011
Investment Opinion	C-1-7
Volatility Risk	HIGH
52-Week Range	Rs902.00-Rs1,247
Mrkt Val / Shares Out (mn)	US\$44,788 / 1,957.2
Market Value (mn)	Rs2,192,577
Average Daily Volume	2,364,972
BofAML Ticker / Exchange	TACSF / BSE
Bloomberg / Reuters	TCS IN / TCS.BO
ROE (2012E)	36.6%
Net Dbt to Eqty (Mar-2011A)	-28.3%
Est. 5-Yr EPS / DPS Growth	20.0% / 10.0%
Free Float	13.3%

Key Changes

(Rs)	Previous	Current
Price Obj.	1,190.00	1,260.00
2012E EPS	50.19	54.09
2013E EPS	59.31	63.12
2014E EPS	72.52	74.69
2012E EBITDA (m)	131,210.4	144,423.1
2013E EBITDA (m)	152,928.4	165,760.8
2014E EBITDA (m)	185,360.6	193,155.6

iQprofileSM Tata Consultancy

Key Income Statement Data (Mar)	2010A	2011A	2012E	2013E	2014E
(Rs Millions)					
Sales	300,289	373,245	483,084	564,040	673,859
Gross Profit	143,047	173,872	227,514	263,549	311,558
Sell General & Admin Expense	(55,396)	(61,888)	(83,091)	(97,789)	(115,033)
Operating Profit	79,591	104,770	135,084	153,656	177,736
Net Interest & Other Income	2,255	5,324	5,394	10,069	13,231
Associates	NA	NA	NA	NA	NA
Pretax Income	81,846	110,094	140,478	163,725	190,967
Tax (expense) / Benefit	(12,088)	(21,739)	(33,649)	(39,294)	(43,922)
Net Income (Adjusted)	68,728	87,164	105,862	123,548	146,179
Average Fully Diluted Shares Outstanding	1,957	1,957	1,957	1,957	1,957

Key Cash Flow Statement Data

Net Income	68,728	87,164	105,862	123,548	146,179
Depreciation & Amortization	7,209	7,214	9,340	12,105	15,419
Change in Working Capital	4,431	(15,459)	(12,894)	(11,734)	(15,918)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	(5,449)	(9,771)	(10,383)	(9,763)	(13,244)
Cash Flow from Operations	74,918	69,148	91,924	114,155	132,436
Capital Expenditure	(10,225)	(17,015)	(21,176)	(27,000)	(32,000)
(Acquisition) / Disposal of Investments	0	0	0	0	0
Other Cash Inflow / (Outflow)	(45,041)	(1,648)	(2,000)	0	0
Cash Flow from Investing	(55,266)	(18,663)	(23,176)	(27,000)	(32,000)
Shares Issue / (Repurchase)	0	0	0	0	0
Cost of Dividends Paid	(19,594)	(45,832)	(36,205)	(42,253)	(49,993)
Cash Flow from Financing	(23,500)	(46,142)	(35,239)	(41,371)	(49,128)
Free Cash Flow	64,694	52,133	70,748	87,155	100,436
Net Debt	(82,178)	(72,880)	(101,907)	(147,692)	(199,000)
Change in Net Debt	(113)	(4,653)	(33,509)	(45,785)	(51,308)

Key Balance Sheet Data

Property, Plant & Equipment	41,706	51,996	63,398	78,293	94,874
Other Non-Current Assets	58,535	92,641	106,690	118,833	135,306
Trade Receivables	58,098	82,007	106,278	124,089	148,249
Cash & Equivalents	84,596	73,264	108,773	154,558	205,866
Other Current Assets	33,277	27,974	36,206	42,274	50,504
Total Assets	276,213	327,882	421,346	518,047	634,799
Long-Term Debt	111	56	56	56	56
Other Non-Current Liabilities	5,413	10,973	14,202	16,582	19,811
Short-Term Debt	2,307	328	6,810	6,810	6,810
Other Current Liabilities	54,210	59,335	72,463	84,606	101,079
Total Liabilities	62,040	70,692	93,531	108,054	127,756
Total Equity	214,172	257,191	327,815	409,992	507,043
Total Equity & Liabilities	276,213	327,883	421,345	518,046	634,799

iQmethodSM - Bus Performance*

Return On Capital Employed	35.0%	36.0%	34.8%	31.9%	30.5%
Return On Equity	37.6%	37.6%	36.6%	33.9%	32.3%
Operating Margin	26.5%	28.1%	28.0%	27.2%	26.4%
EBITDA Margin	28.9%	30.0%	29.9%	29.4%	28.7%

iQmethodSM - Quality of Earnings*

Cash Realization Ratio	1.1x	0.8x	0.9x	0.9x	0.9x
Asset Replacement Ratio	1.4x	2.4x	2.3x	2.2x	2.1x
Tax Rate (Reported)	14.8%	19.7%	24.0%	24.0%	23.0%
Net Debt-to-Equity Ratio	-38.4%	-28.3%	-31.1%	-36.0%	-39.2%
Interest Cover	NM	NM	NM	NM	NM

Key Metrics

* For full definitions of iQmethodSM measures, see page 12.

Company Description

Set up in 1968, TCS pioneered IT services exports & is India's largest exporter (FY11 rev: US\$8.2bn, 198,000 people). Strengths: Scale, end-to-end services, depth of vertically focused IP, project mgmt depth, fixed-bid pricing capability & ability to deliver large/complex projects. Besides US & Europe it focuses on emerging markets like India and Latin America & has the widest global low-cost delivery centers (eg, China).

Investment Thesis

TCS is a key beneficiary of increased global sourcing. It stands out for all round growth across verticals, geographies and service lines. It is also increasingly winner larger and more transformational deals. Finally, it leads the industry in its industry low attrition and ability to operate at high utilization levels. We expect pricing, productivity and revenue mix focus to largely offset wage pressures. We expect robust earnings growth driven return in the stock.

Stock Data

Price to Book Value

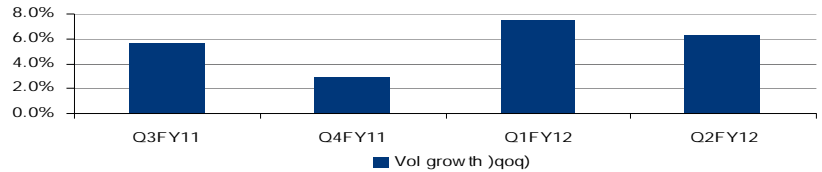
6.8x

Business momentum intact, Buy

TCS 2Q revenue and EBIT (INR terms) missed our estimates by 1% and 2-3%, but met our PAT estimates on lower than expected forex hedge hit. This miss was due to volatility in the lumpy India business and mix led lower realization.

More importantly, international business reported a stellar 7.3% qoq volume growth. Employee hiring induces confidence and management commentary stood out for its unequivocal bullishness on current demand outlook.

Chart 1: Strong volume growth despite impact from lumpy India business



Source: BofA Merrill Lynch Global Research

Co has already made 35,000 campus offers vs. 37,500 made before the start of FY12

Company closed 10 large deals (US\$100m+) and has at least another 10 in the pipeline. TCS also remains confident on managing margins by pushing productivity. Its gross employee hiring target stands unchanged at 60k employees.

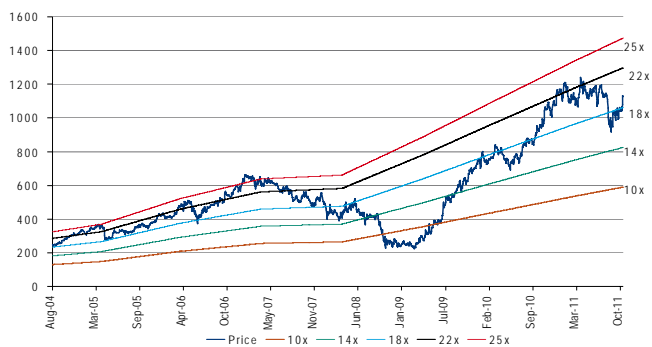
Table 1: Deal closures continue to be strong

	Q111	Q211	Q311	Q411	Q112	Q212
Deals closed in quarter	10	10	9	7	10	10

Source: BofA Merrill Lynch Global Research

We raise our FY12-14E EPS 3 to 8% to bake in beat in international business & INR, raise PO to Rs1,250 (vs Rs1,190), retaining Buy. TCS remains one of our top picks on all round strength. After 10%+ YTP stock outperformance, implied upside is 12-15%.

Chart 2: 1x fwd P/E band - fair



Source: BofA Merrill Lynch Global Research

Chart 3: EV / EBITDA to 2yr EBITDA growth - fair



Source: BofA Merrill Lynch Global Research

Q2 P&L Highlights

- Impressive volume growth of 6.25%qoq helped post a 7.7% qoq growth in revenues. This was 1% below our estimate on account of lumpy India business and mix-led lower realization
- EBIT margin at 27.1% showed a sequential expansion of 94bps, helped mainly by currency. Net profit was in-line with our estimate on account of lower than estimated forex loss.
- DSO days (including unbilled revenues) stayed flattish at 82 days vs 83 days in the previous quarter.
- Interim dividend payout of Rs3 declared for the quarter.

Table 2: Q2 P&L Summary

INR Million	Q212	Q112	QoQ	Q211	YoY	BofAMLe	Var	Comments
Revenues	116,335	107,970	7.7%	92,864	25.3%	117,559	-1.0%	Rev growth of 7.7%qoq was driven by volume growth (6.25%), favorable forex (2.5%) and partially impacted by realization (0.95%) and offshore shift (0.05%).
Less:								
Cost of services rendered (excl'd dep)	59,276	55,712	6.4%	46,811	26.6%	59,605	-0.6%	
Cost of equipment & software licenses	2,865	3,079	-6.9%	3,145	-8.9%	3,174	-9.7%	
Total cost of revenues	62,141	58,791	5.7%	49,956	24.4%	62,779	-1.0%	
Gross Profit	54,194	49,179	10.2%	42,908	26.3%	54,780	-1.1%	
Selling, general and administrative (excl. depn)	20,365	18,869	7.9%	15,133	34.6%	20,100	1.3%	
Total operating expenses	20,365	18,869	7.9%	15,133	34.6%	20,100	1.3%	
EBITDA	33,828	30,310	11.6%	27,775	21.8%	34,680	-2.5%	
Less: Depreciation	2,286	2,049	11.6%	1,660	37.7%	2,239	2.1%	EBIT margin expansion of 94bps was on account of favorable forex movement (166bps), SGA productivity (10bps), offshore shift (4bps) and partially offset by rate productivity (73bps) and bad debt (13bps).
EBIT	31,542	28,261	11.6%	26,115	20.8%	32,441	-2.8%	
Other income (expense), net	997	2,887	-65.5%	443	125.1%	-240	-515.2%	
Income before income taxes, PBT	32,540	31,147	4.5%	26,558	22.5%	32,201	1.1%	
Income tax expense (benefit)	7,913	7,063	12.0%	5,001	58.2%	7,406	6.8%	
Income after taxes before minority interests	24,627	24,084	2.3%	21,557	14.2%	24,795	-0.7%	
Minority interests	-237	-281	-15.6%	-295	-19.6%	-309	-23.3%	
Equity in net earnings of affiliates	0	0	n/a	0	n/a	0	n/a	
Net income before extraord gains	24,390	23,803	2.5%	21,262	14.7%	24,486	-0.4%	Net profit was essentially in-line with our estimate on account of lower-than-expect forex loss
Recurring Net Profit	24,390	23,803	2.5%	21,262	14.7%	24,486	-0.4%	

Source: BofA Merrill Lynch Global Research

Table 3: Q2 Margins

Margins	Q212	Q112	QoQ (bps)	Q211	YoY (bps)	BofAMLe	Variation (bps)
Gross Profit	46.6%	45.5%	104	46.2%	38	46.6%	-1
EBITDA	29.1%	28.1%	101	29.9%	-83	29.5%	-42
EBIT	27.1%	26.2%	94	28.1%	-101	27.6%	-48
Net Profit	21.0%	22.0%	-108	22.9%	-193	20.8%	14

Source: BofA Merrill Lynch Global Research

Largest vertical - BFSI continued to grow a strong 5%+ qoq while retail led growth in the qtr (9%qoq). Telecom revs declined 4%qoq but co highlighted closing 3 large deals in this vertical.

Q2 Other Highlights

Table 4: 2QFY12 Vertical Mix

	% of Revs	QoQ			
		Q2FY12	Q3FY11	Q4FY11	Q1FY12
BFSI	43.5%	8.4%	3.3%	5.7%	5.2%
Manufacturing	7.8%	4.1%	9.1%	8.9%	7.5%
Telecom	10.7%	-0.5%	-3.2%	14.3%	-4.2%
Life Sciences & Healthcare	5.3%	9.1%	6.7%	5.4%	6.7%
Retail & Distribution	12.1%	7.0%	7.6%	11.3%	9.2%
Transportation	3.8%	13.7%	20.1%	1.9%	7.5%
Hi-tech	5.9%	16.3%	13.1%	15.4%	6.5%
Media and Entertainment	2.1%	23.0%	4.7%	2.8%	-0.1%
Others	4.5%	-4.3%	-1.5%	14.2%	-7.6%

Source: BofA Merrill Lynch Global Research

Discretionary services of enterprise solutions / consulting grew ahead of company while app dev and maintenance saw a muted quarter

Table 5: 2QFY12 Services Mix

	% of Revs	QoQ			
		Q2FY12	Q3FY11	Q4FY11	Q1FY12
Application Development and Maintenance	44.7%	2.9%	7.3%	7.7%	1.3%
Business Intelligence	4.7%	1.2%	-3.2%	7.4%	0.4%
Engineering & Industrial Services	4.8%	4.8%	4.7%	3.0%	9.3%
Infrastructure Services	9.6%	19.5%	-9.3%	12.2%	5.8%
Enterprise Solutions	11.1%	-0.3%	17.8%	7.4%	7.6%
Global Consulting	2.6%	17.2%	-4.4%	12.6%	23.7%
Assurance Services	7.6%	15.1%	3.2%	12.0%	9.0%
Business Process Outsourcing	10.9%	11.9%	6.5%	1.0%	4.7%

Source: BofA Merrill Lynch Global Research

Impressive growth seen in Europe despite troubled economic climate in the region. Decline in revs from India was on account of lumpy nature of revs

Table 6: 2QFY12 Geography Mix

	% of Revs	QoQ			
		Q2FY12	Q3FY11	Q4FY11	Q1FY12
Americas	56.4%	5.1%	4.7%	6.3%	5.5%
Europe	25.6%	10.9%	5.1%	6.6%	6.4%
India	8.3%	-0.6%	0.1%	13.5%	-6.5%
Others	9.7%	17.5%	8.2%	10.9%	6.9%

Source: BofA Merrill Lynch Global Research

Growth was led by clients outside the top 5 bucket

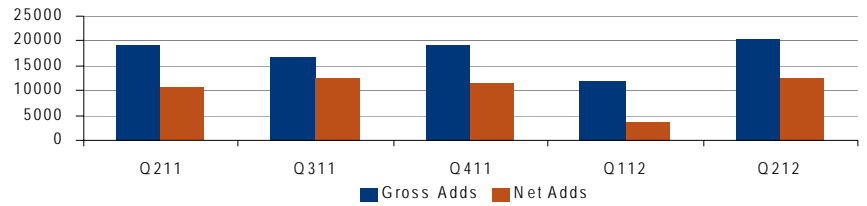
Table 7: Revenue by client bucket

(Q/Q - LTM basis)	Q111	Q211	Q311	Q411	Q112	Q212
Top client	3.7%	5.1%	2.9%	3.2%	3.1%	3.4%
Top 2-5 clients	7.3%	8.0%	7.7%	5.9%	4.3%	2.5%
Top 6-10 clients	6.3%	0.2%	9.6%	7.4%	7.4%	7.7%
Non Top 10 clients	4.6%	7.1%	7.0%	8.1%	8.5%	7.3%

Source: BofA Merrill Lynch Global Research

Company hired 20,349 employees, its highest ever and maintained its target of 60,000 hires for FY12

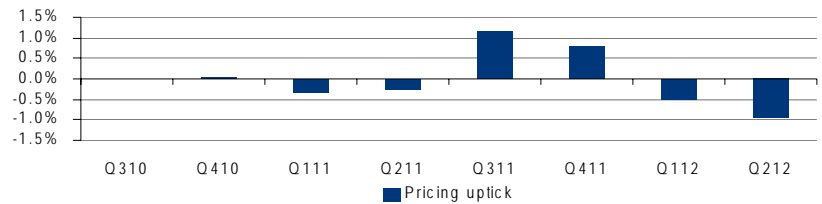
Chart 4: Employee additions on track



Source: BofA Merrill Lynch Global Research

Decline in realization was on account of change in revenue mix by service line. Billing rates expected to stay flattish

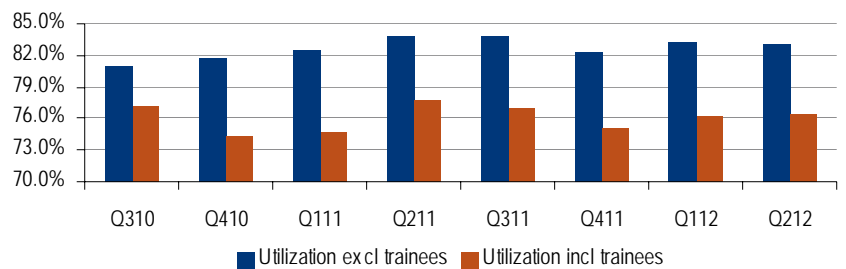
Chart 5: Realization declined marginally on account of service mix



Source: BofA Merrill Lynch Global Research

Co continues to function at high utilization rates. It expects to maintain utilization ex trainees between 82-84%

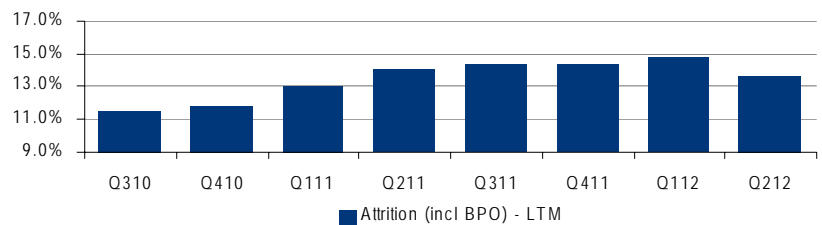
Chart 6: Utilization rates hold high



Source: BofA Merrill Lynch Global Research

Best placed vs. large peers in terms of employee attrition rates

Chart 7: Employee attrition rates declined in the quarter



Source: BofA Merrill Lynch Global Research

Valuation

Table 8: SUMMARY VALUATION - INDIA IT

	Tata Consultancy	Wipro	Infosys Tech	HCL
BofAML Code	TACSF	WIPRF	INFYF	XHCLF
Bloomberg Code	TCS IN	WPRO IN	INFO IN	HCLT IN
BofAML Rating	C-1-7	C-2-7	C-1-7	C-1-8
Currency	INR	INR	INR	INR
Year End	Mar	Mar	Mar	Jun
Nprice	1,120	357	2,747	440
Revenue growth YoY %				
FY10	8%	6%	5%	19%
FY11	24%	14%	21%	28%
FY12E	29%	12%	22%	19%
FY13E	17%	12%	15%	19%
FY14E	19%	19%	19%	22%
EBITDA growth (YoY %)				
FY10	21.7%	8.0%	15.7%	19.7%
FY11	20.9%	18.1%	9.2%	11.4%
FY12E	29.0%	11.0%	14.1%	7.1%
FY13E	29.0%	4.4%	18.8%	17.1%
FY14E	14.8%	11.7%	12.7%	22.3%
	16.5%	17.1%	15.2%	23.6%
EPS Rs				
FY10	35.1	18.9	110.3	17.7
FY11	44.5	21.5	119.4	22.9
FY12E	54.1	22.3	142.2	27.4
FY13E	63.1	25.4	162.9	35.7
FY14E	74.7	30.1	186.7	45.7
EPS growth (YoY%)				
FY10	32.9%	18.5%	6.4%	-0.8%
FY11	26.8%	14.1%	8.3%	29.0%
FY12E	21.5%	3.3%	19.1%	19.8%
FY13E	16.7%	14.0%	14.6%	30.2%
FY14E	18.3%	18.4%	14.6%	28.0%
PE (FY11 EPS)(x)	25.2	16.6	23.0	19.2
PE (FY12e EPS)(x)	20.7	16.0	19.3	16.1
PE (FY13e EPS)(x)	17.7	14.1	16.9	12.3
PE (FY14e EPS)(x)	15.0	11.9	14.7	9.6
EV/EBITDA (FY11)x	18.9	12.4	15.7	11.0
EV/EBITDA (FY12E)x	14.7	11.9	13.2	9.4
EV/EBITDA (FY13E)x	12.8	10.7	11.8	7.7
EV/EBITDA (FY14E)x	11.0	9.1	10.2	6.2
EBIT % FY10	26.5%	18.9%	30.4%	15.7%
EBIT % FY11	28.1%	18.6%	29.5%	13.4%
EBIT % FY12E	28.0%	17.1%	28.6%	13.2%
EBIT % FY13E	27.2%	17.0%	27.7%	13.8%
EBIT % FY14E	26.4%	16.9%	26.9%	14.3%
ROE (FY10) (x)	38	27	29	19
ROE (FY11) (x)	38	24	27	21
ROE (FY12e) (x)	37	21	27	21
ROE (FY13e) (x)	34	20	25	23
ROE (FY14e) (x)	32	20	24	24

Source: BofA Merrill Lynch Global Research

Financial Tables

Table 9: TCS P&L

Rs Mil	FY09	FY10	FY11	FY12E	FY13E	FY14E
Total revenues	278,129	300,289	373,245	483,084	564,040	673,859
Total cost of revenues	150,775	157,242	199,373	255,570	300,491	362,301
Gross Profit	127,354	143,047	173,872	227,514	263,549	311,558
GPM%	45.8%	47.6%	46.6%	47.1%	46.7%	46.2%
Operating Expenses						
Selling, general and administrative (excl. depn)	55,144	55,396	61,888	83,091	97,789	115,033
Research and development	431	851	-	-	-	3,369
Total operating expenses	55,575	56,247	61,888	83,091	97,789	118,402
EBITDA	71,779	86,800	111,984	144,423	165,761	193,156
EBITDA %	25.8%	28.9%	30.0%	29.9%	29.4%	28.7%
Less: Depreciation	5,764	7,209	7,214	9,340	12,105	15,419
Operating Income, EBIT	66,015	79,591	104,770	135,084	153,656	177,736
EBIT %	23.7%	26.5%	28.1%	28.0%	27.2%	26.4%
Other Income (expense)						
Interest and dividends, net	1,899	1,668	4,391	5,521	9,503	12,555
Foreign exchange gain (loss), net	(7,614)	(1,807)	(467)	(613)	-	-
Other, net	1,042	2,394	1,400	486	566	676
Other income (expense), net	(4,673)	2,255	5,324	5,394	10,069	13,231
Income before income taxes, PBT	61,342	81,846	110,094	140,478	163,725	190,967
Income tax expense (benefit)	9,012	12,088	21,739	33,649	39,294	43,922
Income after taxes before minority interests	52,331	69,757	88,355	106,828	124,431	147,044
Minority interests	(604)	(1,019)	(1,191)	(966)	(883)	(865)
Equity in net earnings of affiliates	(7)	(10)	-	-	-	-
Net income	51,720	68,728	87,164	105,862	123,548	146,179
Recurring Net Profit	51,720	68,728	87,164	105,862	123,548	146,179
NPM%	18.6%	22.9%	23.4%	21.9%	21.9%	21.7%

Source: BofA Merrill Lynch Global Research

Table 10: Key Ratios

Key Ratios	FY09	FY10	FY11	FY12E	FY13E	FY14E
EBITDA Margin	25.8%	28.9%	30.0%	29.9%	29.4%	28.7%
EBIT Margin	23.7%	26.5%	28.1%	28.0%	27.2%	26.4%
PBT Margin	22.1%	27.3%	29.5%	29.1%	29.0%	28.3%
Net Margin (recurring)	18.6%	22.9%	23.4%	21.9%	21.9%	21.7%
EPS (Rs.)	26.4	35.12	44.53	54.09	63.12	74.69
CEPS (Rs.)	29.4	38.8	48.2	58.9	69.3	82.6
Book Value per Share	80.0	107.0	129.8	165.4	206.9	256.1
ROCE	39%	41%	43%	44%	40%	37%
RONW	37%	38%	38%	37%	34%	32%
Revenue growth	22%	8%	24%	29%	17%	19%
EBIT growth	23%	21%	32%	29%	14%	16%
Net Profit growth (recurring)	4%	33%	27%	21%	17%	18%
DSO (Debtor and Unbilled)	99	84	92	92	93	93

Source: BofA Merrill Lynch Global Research

18 October 2011

Table 11: TCS Balance Sheet

Rs Mil	FY09	FY10	FY11	FY12E	FY13E	FY14E
Current Assets						
Cash and Cash equivalents	14,625	10,249	15,539	88,383	134,168	185,476
Accounts Receivable	61,532	58,098	82,007	106,278	124,089	148,249
Unbilled Revenues	14,814	12,011	13,489	17,459	20,384	24,353
Other Current Assets	20,304	21,089	14,485	18,748	21,889	26,151
Total	123,003	138,149	164,855	230,868	300,530	384,230
Investments	17,232	37,822	18,390	20,390	20,390	20,390
Equity in Affiliates	39	17	-	-	-	-
Property & Equipment net	37,490	41,706	51,996	63,398	78,293	94,874
Intangible Assets & Goodwill	34,185	32,415	33,791	34,227	34,227	34,227
Other Non-Current Assets	16,853	26,103	58,850	72,463	84,606	101,079
Total Assets	228,802	276,213	327,882	421,346	518,047	634,799
Current Liabilities						
Accrued Expenses & Other Current Liabilities	44,395	46,899	59,335	72,463	84,606	101,079
Unearned & Deferred Revenues	7,762	7,311	-	-	-	-
Short term Borrowings	5,158	2,307	328	6,810	6,810	6,810
Total Current Liabilities	57,315	56,516	59,663	79,273	91,416	107,889
Long Term Debt	1,762	111	56	56	56	56
Minority Interests	3,133	4,768	3,147	4,113	4,996	5,861
Other Non-current Liabilities	10,048	5,413	10,973	14,202	16,582	19,811
Total Liabilities	14,943	10,293	14,176	18,371	21,634	25,728
Total Shareholder's Equity	156,545	209,404	254,044	323,701	404,996	501,182
Total Liabilities and Shareholder's Equity	228,802	276,213	327,883	421,345	518,046	634,799

Source: BofA Merrill Lynch Global Research

Table 12: TCS Cash flow statement

Rs Mil	FY09	FY10	FY11	FY12E	FY13E	FY14E
Cash From Operations						
Recurring net profit	51,719	68,728	87,164	105,862	123,548	146,179
Add: Depreciation	5,790	7,248	7,214	9,340	12,105	15,419
Add: Deferred taxes	(2,982)	(4,996)	-	-	-	-
(Increase)/Decrease in working capital	1,802	4,431	(15,459)	(12,894)	(11,734)	(15,918)
(Increase)/Decrease in non-current assets	(1,684)	132	(15,331)	(13,613)	(12,143)	(16,473)
Increase/(Decrease) in non-current liabilities	487	(1,960)	5,560	3,229	2,380	3,229
Net cash from operations	55,986	74,918	69,148	91,924	114,155	132,436
Cash From Investments						
Capex	(11,456)	(10,225)	(17,015)	(20,740)	(27,000)	(32,000)
(Increase)/Decrease in affiliate investments	-	-	-	-	-	-
(Increase)/Decrease in intangible assets/goodwill	-	-	-	(436)	-	-
Sale of investments and bank deposits	(1,111)	(45,320)	(2,878)	-	-	-
Acquisitions	(23,667)	279	(210)	-	-	-
Others	-	-	1,440	(2,000)	-	-
Net cash from investments	(36,234)	(55,266)	(18,663)	(23,176)	(27,000)	(32,000)
Free Cash Flow	44,530	64,694	52,133	70,748	87,155	100,436
Cash From Financing						
Capital Inflows	-	-	-	(0)	-	0
Increase/(Decrease) In Minority Interest	39	54	-	966	883	865
Dividends paid	(16,121)	(19,594)	(45,832)	(31,759)	(37,064)	(43,854)
Tax on dividends	-	-	-	(4,446)	(5,189)	(6,140)
Net Cash From Financing	(16,696)	(23,500)	(46,142)	(35,239)	(41,371)	(49,128)
Effect of foreign exchange on cash flows	895	(529)	487	-	-	-
Opening cash and treasury	10,673	14,625	10,249	73,264	108,773	154,558
Change in cash and cash equivalents	3,057	(3,847)	4,342	33,509	45,785	51,308
Closing cash and treasury	14,625	10,249	15,078	106,773	154,558	205,866

Source: BofA Merrill Lynch Global Research

Price objective basis & risk Tata Consultancy (TACSF)

Our Price Objective of Rs1,260 is at 20x FY13E PE. This is in line with the earnings growth trajectory during FY11-14. It is also in line with Infys 5-yr average PE and re rated from its own avg PE of 18x, given TCSs track record of superior and balanced earnings growth in last 3 years.

Risks to our earnings estimates and price objective stem from double dip recession, protectionism, increasing competition and specially for TCS, any shock to the banking sector.

Link to Definitions Technology

Click [here](#) for definitions of commonly used terms.

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India - Software & IT Services Coverage Cluster

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	Dish TV India Ltd	XCETF	DITV IN	Pratish Krishnan
	ExlService Holdi	EXLS	EXLS US	Kunal Tayal
	Firstsource	FSSOF	FSOL IN	Kunal Tayal
	Genpact Ltd	G	G US	Kunal Tayal
	Hathway Cable & Datacom Ltd	XHKYF	HATH IN	Pratish Krishnan
	HCL	XHCLF	HCLT IN	Mitali Ghosh
	Hexaware Tech	XFTCF	HEXW IN	Pratish Krishnan
	Infosys Tech	INFYF	INFO IN	Mitali Ghosh
	Infosys Tech - A	INFY	INFY US	Mitali Ghosh
	Jagran Prakashan Ltd	JGRPF	JAGP IN	Pratish Krishnan
	Rollta India	RLTAF	RLTA IN	Pratish Krishnan
	Rollta India-GDR	XLROF	RTI LI	Pratish Krishnan
	Tata Consultancy	TACSF	TCS IN	Mitali Ghosh
	Zee Entertainment	XZETF	Z IN	Pratish Krishnan
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	Sun TV Network Ltd	SUTVF	SUNTV IN	Pratish Krishnan
	Tech Mahindra	TMHAF	TECHM IN	Pratish Krishnan
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	Wipro	WIT	WIT US	Mitali Ghosh
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	Mahindra Satyam Ltd	SAYCY	SAYCY US	Pratish Krishnan
	Mastek	MSKDF	MAST IN	Pratish Krishnan
	Mphasis Ltd	MPSSF	MPHL IN	Pratish Krishnan
	Persistent Systems	XPSYF	PSYS IN	Kunal Tayal
	WNS (Holdings) L	WNS	WNS US	Kunal Tayal
RVW				
	Educomp Solu	EUSOF	EDSL IN	Pratish Krishnan

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Business Performance	Numerator	Denominator
Return On Capital Employed	$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) * (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt, Less Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap. = Current Share Price * Current Basic Shares
Enterprise Value / Sales	$\text{EV} = \text{Current Share Price} * \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} + \text{Sales} + \text{Other LT Liabilities}$	
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

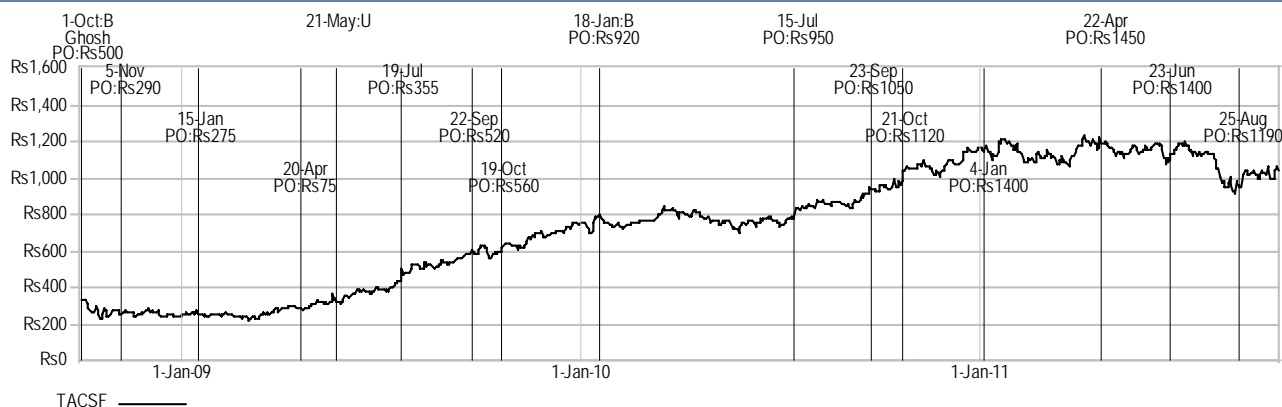
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Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	133	55.19%	Buy	64	52.89%
Neutral	53	21.99%	Neutral	26	54.17%
Sell	55	22.82%	Sell	14	27.45%

Investment Rating Distribution: Global Group (as of 01 Oct 2011)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
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Neutral	961	25.09%	Neutral	460	52.57%
Sell	796	20.78%	Sell	287	38.32%

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster*
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